POWER

Canadian International Power Company Limited Annual Report

December 31, 1977

Description of the Company's Business

C I Power is primarily engaged through a subsidiary company in the generation, transmission, distribution and sale of electricity in Barbados, and until October 3, 1977, was so engaged through other subsidiaries located in El Salvador and Bolivia. On that date, the Company's ownership interests in its El Salvador and Bolivia subsidiary companies were distributed to the Company's shareholders pursuant to a plan to distribute the assets and surrender the corporate charter of the Company which had been adopted by the shareholders on June 30, 1977. In the year ended December 31, 1977, consolidated earnings from the Barbados Light and Power Company Limited were approximately \$1,362,000. The El Salvador and Bolivia companies' contributions to earnings for the first nine months of 1977 were approximately \$1,710,000 and \$2,135,000, respectively, or approximately 20 per cent and 26 per cent, respectively, of the Company's consolidated net income.

Electricity is produced in Barbados by generation equipment powered by diesel and fuel oil. This subsidiary operates under a non-exclusive government franchise, and is regulated by a Public Utilities Board.

Note: All figures in the report are in U.S. dollars unless otherwise noted.

Canadian International Power Company Limited

Board of Directors

*Eric H. Campbell
Montreal, President,
Canadian International Power Company Limited

**William R. Eakin
Montreal, Consultant,
McLean Kennedy, Limited

**Alan S. Gordon
Montreal, Consultant,
Merrill Lynch, Royal Securities Limited

*William M. Hickey
New York, Chairman of the Executive Committee,
Baldwin-United Corporation

**John R. Hughes
Montreal, Director,
Maritime Electric Company, Limited

Harold W. Smith
Waterbury, Connecticut, President,
First Federal Savings and Loan Association of Waterbury

*Morley P. Thompson
Cincinnati, Ohio, President,
Baldwin-United Corporation

*Members of the Executive Committee
**Members of the Audit Committee

Officers

Morley P. Thompson (1975)
Chairman

William M. Hickey (1943)
Chairman of the Executive Committee

Eric H. Campbell (1936)
President

James J. Dealy (1970)
Vice-President & Secretary

John H. Nelson (1955)
Vice-President
Managing Director
The Barbados Light & Power Company Limited

Henning J. Porsaa (1957)
Assistant Treasurer

(Dates indicate year of first employment with associated companies)

Office

Suite 1800
2020 University Street
Montreal, Quebec, Canada
H3A 2A5
Telephone: Area Code: 514-285-1414

Registrars

Montreal Trust Company
1 Place Ville Marie
Montreal, Quebec, Canada

The Chase Manhattan Bank
1 Chase Manhattan Plaza
New York, N.Y.

Auditors

Arthur Young, Clarkson, Gordon & Co.
630 Dorchester Blvd. West
Montreal, Quebec, Canada

Transfer Agents

Montreal Trust Company

1695 Hollis Street
Halifax, Nova Scotia

1 Place Ville Marie
Montreal, Quebec

15 King Street West
Toronto, Ontario

Notre Dame at Albert Street
Winnipeg, Manitoba

7th Avenue at 3rd Street
Calgary, Alberta

466 Howe Street
Vancouver, British Columbia

Citibank, N.A.
111 Wall Street
New York, N.Y.

To the Shareholders:

The year was one of singular importance for Canadian International Power Company Limited. On June 30, 1977, the shareholders approved a plan to distribute the assets and surrender the charter of the Company. This action was in response to a management proposal which had been carefully considered and unanimously approved by the Board of Directors.

As previously reported in our annual letters to shareholders, in anticipation of the sale of the Company's Venezuelan electric utility subsidiaries, the Board of Directors has, over the past several years, investigated many alternatives for the future operations of the business. In view of various operating and tax obstacles to other alternatives considered and the successful sale of the Company's Venezuela utility subsidiaries in October of 1976, it was determined that a liquidation of the Company would be in the best interest of shareholders. As a result of this decision, we believe shareholders will have received greater value for their shares than would have been available in the immediate future and possibly for many years if the Company had reinvested the proceeds from the sale of the Venezuelan companies in new business enterprises.

Pursuant to the plan of liquidation, on July 29, 1977, the 5.2% Cumulative Redeemable Preferred Shares, 1965 Series, were retired at Canadian $20.40 per share plus accrued dividends. On October 3, 1977, the Company made liquidating distributions in kind to its shareholders of its 99.6% capital stock interest in Bolivian Power Company Limited and its 88.5% capital stock interest in Compañia de Alumbrado Eléctrico de San Salvador. The distribution of shares of the latter company took the form of American Depositary Receipts. On November 3, 1977, Canadian International Power distributed $117,527,800 in cash or $20.00 per common share to its shareholders which constituted the major part of its cash assets.

Disposition of Remaining Assets

Following these distributions, the Company's non-cash assets consisted of: its remaining electric utility subsidiary, The Barbados Light & Power Company Limited, in which it holds 75.4% (see note 10c) common stock interest; shares of its 99.8% owned Venezuela investment subsidiary, Inversiones Indesven, S.A.; its 70% owned engineering subsidiary, C I Power Services Limited; its 88.5% owned subsidiary, Monterey Railway, Light & Power Company and its 99.8% owned subsidiary, International Power Company Limited.

The Barbados Government has advised the Company of its firm intention of localizing the ownership of the Barbados Company. After discussions with the Government, it was agreed that the Barbados Company would sell 300,000 ordinary shares from Treasury to the Barbados Government. No further action is presently contemplated with respect to this investment, and its eventual disposition will be dependent on future developments. A brief review of the operations of the Barbados Company is contained further on in this letter.

During 1978 to date, the following actions were taken concerning C I Power's remaining investments. Inversiones Indesven, S.A. applied to the Superintendent of Foreign Investments in Venezuela for authorization to

distribute its assets to shareholders. Approval is expected within the next few months. The net realizable value to C I Power from this investment is estimated to be $5,100,000. The assets of this Company consist of shares in a Venezuelan real estate and bank holding company, Fiveca, S.A., shares in a mortgage bank and bank deposits.

Tentative agreement has been reached whereby C I Power Services Limited will acquire the outstanding shares held by the Company for approximately $386,000. It is expected that a contract will be signed in the near future.

Monterey Railway, Light & Power Company made a distribution of assets by way of return of capital of Canadian $100 per share on the outstanding 5% Cumulative Preference Shares plus accrued dividends and a Canadian $113 per share cash distribution to the ordinary shareholders. These transactions resulted in C I Power receiving a total of approximately $4,100,000 from this Company. After these distributions, Monterey has a net book value of $1,840,000 which consists principally of shares in Aluminio, S.A. de C.V., a Mexican aluminum producer, which have an estimated current market value of $1,685,000. A second and final distribution to the ordinary shareholders of Monterey is anticipated during the second quarter of 1978.

International Power Company Limited made a complete distribution of its net assets which resulted in a $3,695,000 transfer to the Company. This payment was largely offset, however, by an account receivable from the Company.

In summary, management has made major progress in carrying out the plan of liquidation. While the Company still has substantial assets, as indicated on the balance sheet, there are presently ascertainable liabilities of $6,293,000 and additional contingent liabilities amounting to $4,326,000. A further cash distribution will be made to shareholders when these liabilities are discharged or fully provided for.

1977 Income

Consolidated net income for the year amounted to $8,362,000 or $1.40 per share. This is not comparable to the results reported for 1976 because of the sale on October 29, 1976, of the Venezuelan electric utilities and the distribution to the shareholders on October 3, 1977, of the Bolivia and El Salvador companies. The earnings of the last two named companies were included in the consolidation only up to September 30, 1977, for an amount of $3,845,000. Also, because of the liquidation of the Company, remaining investments have been adjusted to their net realizable value.

In addition to withholding taxes which have been paid in previous years, the Company paid corporate income taxes in Canada amounting to Canadian $2,775,000 (U.S. $2,500,000) for the year 1977. This tax resulted primarily from exchange gains on certificates of deposit which were held in U.S. currency.

The Barbados Company

Although sales rose by 11.6 per cent and the number of customers continued to rise, net income for the year was adversely affected by higher operating costs and usual start-up problems connected with the new steam plant in Spring Garden. These problems have been substantially solved and considerable improvement has been seen in the service in the first few months of 1978.

Net income was also reduced by the unfavourable decision of the Public Utilities Board, rendered in August, on the Company's request for increased rates. In the decision, the Board did not grant the full amount proposed by the Company and these new rates, when combined with the new fuel clause which had been proposed by the Company and accepted by the Board, have had the net effect of reducing the average revenue per kilowatt-hour sold by approximately 10 per cent. This has left the Company in a position where it is unable to generate sufficient funds internally to carry out necessary capital expenditures. As a result, the Company decided to meet capital requirements in 1978, partially through the issuance of new ordinary and preference shares. If the proposed offering is completely sold it will add $2,500,000 to the Company's treasury. The Government of Barbados, recognizing the Company's need for expansion capital is, as already mentioned, purchasing a portion of the new ordinary stock issue.

The economy of Barbados continues to operate under strain from the difficulties caused by increased oil prices which have been experienced worldwide. Although sugar production increased during the year, revenue was affected by a decline in the market price. However, tourism, a principal source of foreign exchange earnings, increased in 1977 and the outlook for 1978 is reported to be good.

Finally, the Board wishes to express its sincere appreciation for the fine performance during the year of all the employees of the C I Power group, particularly in view of the uncertainties for them resulting from the winding-up. The Company owes them a debt of gratitude for their continuing loyalty and dedicated and outstanding work.

For the Board of Directors,

Morley P. Thompson,
Chairman

Eric H. Campbell,
President

Montreal, Canada
April 10, 1978.

Canadian International Power Company Limited

Financial Statements 1977

The Special General Meeting of Shareholders and the Annual General Meeting of Shareholders of Canadian International Power Company Limited will be held on Friday, May 5, 1978 at 10:00 a.m. (Eastern Daylight Saving Time) at The Ritz-Carlton Hotel, 1228 Sherbrooke St. West, Montreal, Quebec, Canada.

Index

Consolidated Balance Sheet

(in liquidation — note 1)
December 31, 1977
(expressed in United States currency)

Assets less liabilities	**1977**
Cash	$ 1,246,000
Bank term deposits payable in U.S. dollars	5,510,000
Investments and other assets (note 2)	7,310,000
Accounts receivable	242,000
	14,308,000
Investment in a subsidiary, at equity	
The Barbados Light and Power Company Limited (note 10)	11,427,000
	25,735,000
Less liabilities:	
Accounts payable	793,000
Income and other taxes payable	4,276,000
Minority interest in consolidated subsidiaries	747,000
	5,816,000
	$ 19,919,000

Shareholders' equity	
Capital stock (note 3)	
Common	$ 18,469,000
Retained earnings	182,883,000
Excess of estimated realizable value of investments and other assets over cost (note 2)	1,183,000
	202,535,000
Less liquidating distributions to common shareholders (note 1)	182,616,000
	$ 19,919,000

On behalf of the Board:

Morley P. Thompson

Director

Director

See accompanying notes

Consolidated Statement of Income

(in liquidation — note 1)
Year ended December 31, 1977
(expressed in United States currency)

	1977
Investment income:	
Interest	$ 5,686,000
Dividends and other	448,000
	6,134,000
Company's share of the earnings of:	
The Barbados company	1,362,000
The Bolivian company	2,135,000
The El Salvador company	1,710,000
Other subsidiary sold in 1977	366,000
	5,573,000
	11,707,000
Expenses:	
General and administrative	3,218,000
Income taxes	2,822,000
Other taxes	1,081,000
Minority interest	4,000
	7,125,000
Income before the following items:	4,582,000
Reversal of previously recorded provision relating to the sale of the Venezuelan companies (note 7)	3,266,000
Other income items	514,000
	3,780,000
Net income for the year	$ 8,362,000
Earnings per common share (note 3)	$1.40

See accompanying notes

Consolidated Statement of Retained Earnings

(in liquidation — note 1)
Year ended December 31, 1977
(expressed in United States currency)

	1977
Balance at beginning of year	$176,944,000
Net income	8,362,000
	185,306,000
Deduct:	
Dividends	
Preferred shares ($0.6026 per share to July 29, 1977)	140,000
Common shares ($0.375 per share, declared and paid prior to June 30, 1977)	2,194,000
Net premium on cancellation of preferred shares	89,000
	2,423,000
Balance before liquidating distributions to common shareholders	$182,883,000

See accompanying notes

Consolidated Statement of Changes in Financial Position

(in liquidation — note 1)
Year ended December 31, 1977
(expressed in United States currency)

		1977
Sources of funds:		
Current operations		
Investment income		$ 6,134,000
Dividends from unconsolidated subsidiaries		3,098,000
		9,232,000
Less expenses		7,125,000
		2,107,000
Decrease in accounts receivable		6,585,000
Increase in prepaids and others		(214,000)
Decrease in accounts payable — trade		(1,869,000)
Increase in income taxes payable		3,778,000
		10,387,000
Disposal of investment in subsidiaries		1,593,000
Disposal of investments and other assets		9,930,000
Disposal of property, plant and equipment		186,000
Proceeds on stock options exercised		592,000
		22,688,000
Applications of funds:		
Cancellation of preferred shares		4,674,000
Liquidating distributions to common shareholders	$182,616,000	
Less equity in shares included therein	65,088,000	117,528,000
Dividends — declared in 1977	2,334,000	
— declared in 1976	2,160,000	4,494,000
Reduction of long-term debt		177,000
Repayment of bank loan		710,000
Dividends paid by subsidiaries to minority shareholders		30,000
		127,613,000
Decrease in cash and term deposits		(104,925,000)
Cash and term deposits, beginning of year		111,681,000
Cash and term deposits, end of year		$ 6,756,000

See accompanying notes

Consolidated Balance Sheet

December 31, 1976
(not comparable with the year ended December 31, 1977)
(expressed in United States currency)

Assets	1976
Property, plant and equipment:	
Production	$ 67,117,000
Transmission and distribution	60,522,000
Other	11,266,000
	138,905,000
Less accumulated depreciation	31,499,000
Net property, plant and equipment	107,406,000
Investments and other assets (note 2)	14,085,000
Current assets:	
Cash	1,302,000
Bank term deposits payable in U.S. dollars	112,776,000
Other term deposits	688,000
Accounts receivable	15,955,000
Materials and supplies, at cost	5,405,000
Prepaid expenses	104,000
Total current assets	136,230,000
Deferred charges	456,000
	$258,177,000

Shareholders' equity and liabilities	
Shareholders' equity:	
Capital stock (note 3)	
Preferred	$ 4,585,000
Common	17,877,000
	22,462,000
Retained earnings	176,944,000
Total shareholders' equity	199,406,000
Minority interest in subsidiary companies	7,381,000
Long-term debt (note 4)	23,309,000
Current liabilities:	
Bank loans	4,181,000
Accounts payable	12,586,000
Customers' deposits, including interest thereon	861,000
Income and other taxes payable	1,189,000
Dividends payable	2,160,000
Long-term debt, due within one year (note 4)	2,484,000
Total current liabilities	23,461,000
Employees' service and severance indemnities (note 6)	1,746,000
Customers' contributions for line extension	2,874,000
	$258,177,000

See accompanying notes

Consolidated Statement of Income

Year ended December 31, 1976
(not comparable with the year ended December 31, 1977)
(expressed in United States currency)

	1976
Operating revenue	$ 58,971,000
Operating revenue deductions:	
Operating and maintenance expenses	46,580,000
Taxes — income	3,829,000
— other	616,000
Provision for depreciation	3,645,000
	54,670,000
Operating income	4,301,000
Income for Venezuelan companies sold (note 7)	9,154,000
Investment income	2,633,000
Gross income	16,088,000
Income deductions:	
Interest expense — long-term debt	2,043,000
— other	388,000
Interest charged to construction — credit	(971,000)
Minority interest	843,000
	2,303,000
Income before extraordinary item	13,785,000
Extraordinary item (note 7)	(55,577,000)
Net loss for the year	$(41,792,000)
Loss per common share (note 3):	
Income before extraordinary item	$ 2.33
Extraordinary item	(9.56)
Net loss	$(7.23)

See accompanying notes

Consolidated Statement of Retained Earnings

Year ended December 31, 1976
(not comparable with year ended December 31, 1977)
(expressed in United States currency)

	1976
Balance, beginning of year	$166,938,000
Add:	
Net loss	(41,792,000)
Transfer from appraisal increment (note 7)	60,746,000
Discount less expenses on preferred shares purchased	34,000
	185,926,000
Deduct:	
Preferred share dividends (per share Cdn. $1.04)	263,000
Common share dividends (per share $1.50)	8,719,000
	8,982,000
Balance, end of year	$176,944,000

See accompanying notes

Consolidated Statement of Changes in Financial Position

Year ended December 31, 1976
(not comparable with year ended December 31, 1977)
(expressed in United States currency)

	1976
Source of funds:	
Current operations —	
Income before extraordinary item	$ 13,785,000
Charges (credits) to income not involving a flow of funds in the current period:	
Provision for employees' indemnities	721,000
Provision for contingencies no longer required	(641,000)
Share of earnings of Venezuelan companies sold	(9,154,000)
Dividends from Venezuelan companies sold	9,591,000
Depreciation	3,645,000
Minority interest	843,000
Working capital provided from operations	18,790,000
Deferred charges	1,248,000
Additional borrowing — long-term debt	1,598,000
Proceeds on sale of Venezuelan companies	85,098,000
Proceeds on stock options exercised	185,000
Customers' contributions for line extensions	202,000
Disposal of other assets and investments	1,270,000
	108,391,000
Application of funds:	
Additions to property, plant and equipment	10,932,000
Dividends	8,982,000
Dividends paid by subsidiaries to minority shareholders	510,000
Purchase for cancellation of 5.2% preferred shares	82,000
Reduction of long-term debt	1,876,000
	22,382,000
Increase in working capital	86,009,000
Working capital, beginning of year	26,760,000
Working capital, end of year	$112,769,000
Changes in components of working capital:	
Increase (decrease) in current assets —	
Cash	$ 268,000
Bank term deposits payable in U.S. dollars	86,261,000
Other term deposits	86,000
Accounts receivable	6,858,000
Materials and supplies, at cost	772,000
Prepaid expenses	(21,000)
	94,224,000
Increase (decrease) in current liabilities —	
Bank loans	1,172,000
Accounts payable	6,224,000
Customers' deposits, including interest thereon	171,000
Income and other taxes payable	(76,000)
Dividends payable	(3,000)
Long-term debt, due within one year	727,000
	8,215,000
Increase in working capital	$ 86,009,000

See accompanying notes

Notes to Consolidated Financial Statements

December 31, 1977 and 1976

1. Significant accounting policies

On June 30, 1977, the shareholders of the Company voted in favour of a plan to distribute the assets of the Company. Pursuant thereto the Company cancelled its outstanding 5.2% Cumulative Preferred Shares for an aggregate of Cdn. $5,021,000, made a distribution in kind to its common shareholders of its holdings of the common shares of the Bolivian and the El Salvador companies (carrying value to the Company of $65,088,000) and made a cash distribution of $117,528,000 ($20.00 per common share).

Because the Company is in liquidation, these financial statements are prepared on the basis of estimated realizable amounts for all balance sheet items except for the investment in The Barbados Light and Power Company Limited, a 75.44% owned subsidiary, which is accounted for on the equity basis of accounting pending the formalization of the distribution or the sale of the shares of this company. The amount that would be realized on the distribution or sale of these shares may be different than their carrying value.

a) Basis of financial statement presentation

The Company's investments in subsidiaries are accounted for as follows:

1976

i) Subsidiaries —
At December 31, 1976 the Company's subsidiaries are consolidated.

ii) Venezuelan electric utility companies —
The Company's share of the earnings up to September 30, 1976 of the Venezuelan electric utility companies is accounted for on the equity basis.

1977

i) The Company's share of the earnings of The Barbados Light and Power Company Limited, a subsidiary, is accounted for on the equity basis in 1977 and the investment is carried at equity at the end of 1977. (A summary of the accounts of this subsidiary is shown in note 10).

ii) The Company's share of the earnings of the Bolivian and El Salvador companies to September 30, 1977 is accounted for on the equity basis.

iii) The investment in C I Power Services Limited is carried at estimated net realizable value.

iv) The accounts of the other subsidiaries, whose assets consist primarily of portfolio investments, are consolidated.

b) Property, plant and equipment

Property, plant and equipment are carried at cost in 1976. Provision for depreciation on all assets is computed in the accounts principally on a straight-line basis at rates required to amortize the asset values over the estimated service lives of the assets.

c) Translation of foreign currencies

Property, plant and equipment are translated at rates prevailing at the time of acquisition. The items in the statement of income are translated at the average rates of exchange prevailing during the years, except for depreciation, which is translated at the same rates as used for the related assets. All other assets and liabilities are translated into U.S. dollars at rates prevailing at the balance sheet dates.

At December 31, 1976, the unrealized gain on the translation of foreign currencies into U.S. dollars is deferred. Had the Company followed the rules of the Financial Accounting Standards Boards of the United States, which require that unrealized foreign exchange gains or losses be included in the determination of net income, net income for the year would have been reduced by $858,000 in 1977 and increased by $1,031,000 in 1976.

d) Income taxes

In accounting for income taxes, the Company followed the tax allocation method except in Barbados, where income taxes are recorded on the flow-through basis as required by the regulatory authority.

The Company followed the flow-through method of accounting for investment tax credits whereby the provision for income taxes was reduced in the year by the amount of credits available.

2. Investments and other assets

	1977	1976
At estimated net realizable values in 1977:		
Subsidiary (consolidated in 1976)		
C I Power Services Limited 70% of share capital	$ 384,000	$ —
Investments in bonds, debentures, shares and notes (at cost in 1976)	5,374,000	12,886,000
Investments in shares (at net realizable value in 1976)	1,552,000	1,199,000
Total	$ 7,310,000	$14,085,000

The investments and other assets include a net amount of $1,183,000 to recognize the excess of estimated realizable value of these assets over their cost, which amount is included as a separate item in the shareholders' equity.

3. Capital stock

Preferred stock —

Preferred shares of the par value of Cdn. $20 each, issuable in series, of which 350,000 shares are designated as 5.2% Cumulative Redeemable Preferred Shares, 1965 Series —

	1977	1976
Authorized shares, less redeemed	1,650,000	1,896,903
Issued, less redeemed	—	246,903
Carrying value	—	$4,585,000

During the year 246,903 shares, being all the shares outstanding and having an aggregate par value of Cdn. $4,938,000 (U.S. $4,585,000) were purchased and cancelled for a total cash consideration of Cdn. $5,032,000 (U.S. $4,707,000).

Common stock —

Authorized:

At December 31, 1977, the number of authorized convertible common shares was 8,000,000 each of Class A and Class B with an aggregate authorized value not to exceed $26,000,000.

Issued and outstanding:

	1977	1976
Class A shares	5,766,585	5,387,238
Class B shares	109,805	439,652
Total	5,876,390	5,826,890

A cash distribution, of $20.00 per share of each Class A and Class B shares for a total of $117,528,000, was made on November 3, 1977.

Under a stock option plan for officers and key employees of the Company and its subsidiaries, a maximum of 250,000 common shares had been reserved for issue at a price which could not be less than 100% of the fair market value at the date of grant. No options were granted in 1977. In 1977 options for 49,500 common shares were exercised for an amount of Cdn. $617,000 (U.S. $592,000), and options on 7,000 shares were relinquished. The Company will not be granting further options.

Earnings (loss) per common share were determined by dividing the weighted average number of common shares outstanding during each year into net income less preferred share dividends.

4. Long-term debt (1976 only)

Bolivia	
5½% loan from International Development Association through the Bolivian Government due in semi-annual instalments to 1989*	$ 3,512,000
6% and 8% loan payable in Canadian dollars to Export Development Corporation due in semi-annual instalments to 1983	1,401,000
Equipment notes with interest from 6.7% to 8½% due in varying instalments to 1978	400,000
Other	490,000
	5,803,000
Barbados	
8½% loan payable in Canadian dollars to Export Development Corporation due in semi-annual instalments from 1977 to 1985	8,420,000
7% loan from Lloyds Bank guaranteed by Export Credit Guarantee Department payable in pounds sterling from 1976 to 1983	3,033,000
8½% and 9¼% debentures payable to Commonwealth Development Corporation in pounds sterling to 1990	2,402,000
10½% bank loan due 1981*	3,000,000
9½% debentures due 1989 to 1993*	2,000,000
Bills of exchange with interest from 5½% to 7% payable in pounds sterling to 1981	420,000
Other	533,000
	19,808,000
Other	182,000
	25,793,000
Less amounts due within one year included in current liabilities	2,484,000
	$23,309,000

*Repayable in the currency of the country indicated.

5. Income taxes

The Company files its income tax returns in Canadian dollars. The provision for income taxes accordingly includes taxes payable on foreign exchange gains which are not recorded in these financial statements because they are expressed in U.S. dollars.

Income taxes have been reduced by $469,000 in 1976 as a result of credits permitted under income tax laws for investments in property, plant and equipment in Barbados and Venezuela.

Substantially all undistributed earnings of the Barbados company are reinvested and consequently, no provision is made for withholding taxes that would be payable if these reinvested earnings were distributed.

6. Employees' service and severance indemnities and pension plans (1976 only)

The unamortized amount for service and severance indemnities in Bolivia and the unrecorded liability arising for past service benefits in other countries, aggregate approximately $1,000,000 in 1976.

7. Sale of Venezuelan utility companies

On October 29, 1976 the sale of the Venezuelan utility subsidiary companies to Fondo de Inversiones de Venezuela, a Venezuelan Government agency, was finalized for a cash purchase price of $90,005,000 plus an amount of $5,721,000 received in 1977.

Out of these proceeds the Company had paid and/or provided for in 1976, $10,994,000 to cover income taxes, employees' severance and service indemnities and other liabilities. The consolidated book value of the assets of the companies sold, which included an appraisal increment of $60,746,000 was $140,675,000. The difference between this amount and the net proceeds was treated as a book loss of $55,577,000 on consolidation.

The non-recovered portion of the carrying value of the assets was represented by the appraisal increment which at the same time was transferred to retained earnings. The impact of this transaction on consolidated retained earnings was a net increase of $5,169,000 determined as follows:

Transfer from appraisal increment	$60,746,000
Extraordinary loss	55,577,000
Net increase in retained earnings	$ 5,169,000

Management is of the opinion that the excess of the provision of $10,994,000 set up in 1976 over actual costs and disbursements is no longer necessary and therefore this excess of $3,266,000 was reversed to income in 1977 (see note 9).

8. Remuneration of directors and officers

During the year, the Company had ten directors and thirteen officers, three of whom were also directors. On January 1, 1978, the number of directors and officers were seven and six respectively.

Aggregate remuneration paid by the Company and its subsidiaries to directors and officers of the Company, including past directors and past officers, was as follows:

	To directors		To officers	
	1977	**1976**	**1977**	**1976**
Canadian International Power Company Limited	$51,000*	$62,000	$367,000**	$477,000
Subsidiary companies	8,000	8,000	149,000	258,000
	$59,000	**$70,000**	**$516,000**	**$735,000**

*excludes a special payment of $272,000 to a former director

**excludes $79,000 termination allowance to two officers.

9. Contingent liabilities

Certain assets of the Company are pledged as security for letters of credit in the amounts of Cdn. $4,000,000 issued to the Canadian tax authorities for possible taxes, interest and penalties.

On October 29, 1976 through banks in Venezuela, guarantees to the extent of Bs 18,600,000 (U.S. $4,325,587) for a period of 5 years were given by the Company in favour of the Fondo de Inversiones de Venezuela to cover contingencies arising from possible income tax claims and other liabilities in respect to the utilities sold. Management is of the opinion that no substantial liability will arise from these guarantees.

10. Summary of assets, liabilities and operating results for The Barbados Light and Power Company Limited

The statutory financial statements of the Barbados company reflect fixed assets and related depreciation charges on the basis of reproduction costs new less observed depreciation as at December 31, 1972 with subsequent additions at cost.

Fixed assets and related depreciation charges in this summary are on the basis of cost to conform with the accounting policies of the parent company.

	1977	1976
	(U.S. Dollars)	
a) Summary of assets and liabilities		
Property, plant and equipment, at cost	$42,564,000	$41,337,000
Less accumulated depreciation	7,725,000	6,401,000
Net property, plant and equipment	34,839,000	34,936,000
Current assets	4,577,000	4,028,000
Deferred charges	38,000	(247,000)
	$39,454,000	**$38,717,000**
Current liabilities	$ 8,053,000	$ 6,497,000
Long-term debt	16,039,000	18,027,000
Minority interest	3,935,000	3,640,000
Canadian International Power Company Limited participation in shareholders' equity	11,427,000	10,553,000
	$39,454,000	**$38,717,000**
b) Summary of operating results		
Operating revenue	$18,720,000	$15,692,000
Operating revenue deductions:		
Operating and maintenance expenses	12,574,000	11,612,000
Taxes	225,000	92,000
Provision for depreciation	2,292,000	1,072,000
	15,091,000	12,776,000
Operating income	3,629,000	2,916,000
Investment income	5,000	15,000
Gross income	3,634,000	2,931,000
Income deductions:		
Interest expense — long-term debt	1,645,000	1,678,000
— other	217,000	105,000
Interest charged to construction — credit	(47,000)	(937,000)
Minority interest	457,000	515,000
	2,272,000	1,361,000
Net income for the year applicable to Canadian International Power Company Limited	**$ 1,362,000**	**$ 1,570,000**

c) Subsequent events

On January 10, 1978, the company made a bonus issue to its present shareholders of 636,910 ordinary shares at BDS $5.00 (U.S. $2.50) each, representing a capitalization of BDS $3,184,550 (U.S. $1,592,275) of retained earnings.

On January 26, 1978, the company increased its authorized share capital by BDS $2,500,000 (U.S. $1,250,000) in the form of 500,000, 10% cumulative redeemable preference shares of BDS $5.00 (U.S. $2.50) each.

On February 16, 1978, the Directors approved the issue of the 500,000, 10% cumulative redeemable preference shares of BDS $5.00 (U.S. $2.50) each and 500,000 ordinary shares of BDS $5.00 (U.S. $2.50) at par of which 300,000 shares have been alloted to the Government of Barbados. As Canadian International Power Company Limited will not buy any additional ordinary shares, its percentage of ownership of ordinary shares in the company will be reduced from 75.44% to 66.72%.

11. Unaudited quarterly data

Thousands of dollars	1977 Three Months Ended			
	March 31	June 30	Sept. 30	Dec. 31
Operating revenue as previously reported	$ 16,016	$ 19,167	$ 6,204	N/A
Operating revenue as restated*	$ NIL	$ NIL	$ NIL	$ NIL
Operating income	$ NIL	$ NIL	$ NIL	$ NIL
Other income	$ 3,599	$ 3,402	$ 3,078	$ 1,628
Net income	$ 2,769	$ 2,536	$ 508	$ 2,549
Net income per share	$0.46	$0.42	$0.09	$0.43

	1976 Three Months Ended			
	March 31	June 30	Sept. 30	Dec. 31
Operating revenue as restated*	$ 14,584	$ 15,138	$ 15,341	$ 13,908
Operating income	$ 995	$ 556	$ 1,047	$ 1,703
Other income	$ 3,553	$ 4,056	$ 3,811	$ 367
Net income (loss)**	$ 4,097	$ 4,191	$ 4,195	$(54,275)
Net income (loss) per share Before extraordinary item	$0.69	$0.71	$0.71	$ 0.22
After extraordinary item	$0.69	$0.71	$0.71	$(9.34)

*Operating revenue has been restated to conform to the presentation adopted in the fourth quarter.

**In the fourth quarter of 1976, the extraordinary item referred to in note 7 was recorded.

Auditors' Report

To the Shareholders of
Canadian International Power
Company Limited:

We have examined the consolidated balance sheets of Canadian International Power Company Limited and subsidiary companies as at December 31, 1977 and 1976 and the consolidated statements of income, retained earnings and changes in financial positions for the years then ended. Our examination of the financial statements of Canadian International Power Company Limited, and those subsidiary companies of which we are the auditors, was made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as we considered necessary in the circumstances. We have relied on the report of other public accountants with respect to their examination of the financial statements of the subsidiary located in Barbados, which financial statements are summarized in note 10.

Shareholders of Canadian International Power Company Limited voted on June 30, 1977 to liquidate, and the Company commenced liquidation shortly thereafter. As described in note 1, the Company's present policy is to carry its investment in The Barbados Light and Power Company Limited at equity and all other assets on the basis of estimated realizable amounts; accordingly, the financial statements as at December 31, 1977 are not intended to present the financial position and the results of operations in conformity with generally accepted accounting principles applicable to a continuing business entity.

In our opinion, the financial statements as at December 31, 1977 present fairly the assets and liabilities of Canadian International Power Company Limited as of that date and the revenues and expenses and the changes in the financial position for the year then ended, on the basis of accounting described in note 1 which basis is different from that of the preceding year.

In our opinion, the consolidated financial statements as at December 31, 1976 present fairly on a going concern basis, the financial position of the companies as at December 31, 1976 and the results of their operations and the changes in their financial position for the year then ended in accordance with accounting principles generally accepted in Canada.

Arthur Young, Clarkson, Gordon & Co.
Chartered Accountants

Montreal, Canada,
March 14, 1978

Management's Comments on Consolidated Statements of Income

1976

Operating revenues for the remaining operations at $59 million showed an increase of 27 perecnt over 1975, reflecting a 7.8 percent increase in sales and a rate increase in El Salvador which went into effect January 1, 1976.

Operating expenses at $46.6 million increased by approximately 30 percent over 1975 due primarily to higher costs of purchased power in Salvador and extraordinary maintenance expenses in Barbados and El Salvador.

Net income before extraordinary loss decreased by approximately $2.1 million or 13 percent from 1975, reflecting the loss of income from the Venezuelan utility companies sold as well as a write-down of certain investments in Mexico and Venezuela.

1977

Since the Company is in liquidation, the statement of income for 1977 was not prepared in conformity with accounting principles applicable to a continuing business entity, as was the case in 1976. Therefore, the statement of income for 1977 is not comparable to that of 1976.

Net income for the year amounted to $8.4 million or $1.40 per share. The major component of income was interest income amounting to $5.7 million on certificates of deposit. Other income included the Company's share of the Barbados subsidiary net income, $1.4 million; net income of the Bolivian and El Salvador companies for the first nine months of the year, $3.8 million; and the reversal of a previously recorded provision relating to the sale of the Venezuelan companies $3.3 million.

General and administrative expenses amounting to $3.2 million included approximately $1 million related to the liquidation of the Company.

Other charges to income included provisions for income and other taxes of $3.9 million. Of this amount $1 million were withheld on dividends received from subsidiary companies, and $2.8 million were income taxes resulting mainly from exchange gains on certificates of deposit which were held in U.S. currency.

Listed below are dividends declared on the Common Stock as well as the High and Low Trading prices on the Toronto Stock Exchange by quarter for the years 1976 and 1977.

Quarter Ending	Dividend	High*	Low*
March 31, 1976	$0.375	16½	14¾
June 30, 1976	0.375	16	14½
September 30, 1976	0.375	16⅜	14¾
December 31, 1976	0.375	16⅝	14⅛
March 31, 1977	0.375	21½	16⅜
June 30, 1977	—	21⅜	20½
September 30, 1977	—	23½	21¼
December 31, 1977	—	23	0.90**

*Quoted in Canadian dollars

**On October 3, 1977, the Company distributed its share holdings in Bolivian Power Company Limited and Compañiá de Alumbrado Eléctrico de San Salvador to shareholders and on November 3, 1977, the Company made a distribution of $20 per share to shareholders.

Financial Statistics

(Thousands — except per share)

	Year ended December 31				
	1977	1976	1975	1974	1973
Operating Revenue	$ —	$ 58,971	$ 46,536	$ 41,368	$ 32,102
Operating and maintenance expenses	$ —	$ 46,580	$ 35,882	$ 31,457	$ 22,929
Interest expense	$ —	$ 2,431	$ 2,022	$ 1,544	$ 1,342
Income from Venezuelan companies sold	$ —	$ 9,154	$ 11,055	$ 9,657	$ 11,277
Company's share of earnings of disposed subsidiaries (previously consolidated)	$ 4,211	$ —	$ —	$ —	$ —
Income taxes	$ 2,822	$ 3,829	$ 3,243	$ 2,380	$ 2,680
Income before extraordinary item	$ 8,362	$ 13,785	$ 15,916	$ 15,899	$ 15,627
Extraordinary item: Loss on sale of subsidiary companies	—	(55,577)	—	—	—
Net income (loss)	8,362	(41,792)	15,916	15,899	15,627
Dividends on preferred shares	140	263	269	302	310
Net income (loss) applicable to common shares	$ 8,222	$(42,055)	$ 15,647	$ 15,597	$ 15,317
Earnings (loss) per common share(1) Income before extraordinary item	$ 1.40	$ 2.33	$ 2.70	$ 2.69	$ 2.64
Extraordinary item	—	(9.56)	—	—	—
Net income (loss)	$ 1.40	$(7.23)	$ 2.70	$ 2.69	$ 2.64
Dividends per common share (2)	$0.375	$ 1.50	$ 1.39	$ 1.18	$ 1.04
Shares of stock used to calculate earnings per common share	5,859,515	5,813,236	5,808,921	5,808,140	5,808,140

Notes

(1) Earnings per common share were determined by dividing the number of common shares outstanding during each year into net income (loss) less preferred share dividends. There would be no material dilution of such earnings per common share if all stock options were exercised.

(2) Dividends declared prior to June 30, 1977, being the date of liquidation was voted on by shareholders.

Further Information

A more comprehensive description of the business of the Company and other aspects of its affairs is contained in its annual report on form 10-K on file with the U.S. Securities and Exchange Commission. A copy of this report will be furnished free of charge to any shareholder upon written request addressed to the Company, Attention The Secretary, Suite 1800, 2020 University Street, Montreal, Quebec, Canada H3A 2A5.

Shares of the Common stock in the Company are listed on the Montreal Stock Exchange and the Toronto Stock Exchange and with NASDAQ in New York.

Printed in Canada

POWER